FDIC State Profile

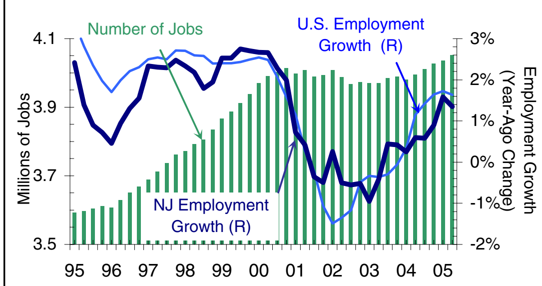
Fall 2005

New Jersey

New Jersey's economic activity eased slightly in second quarter 2005.

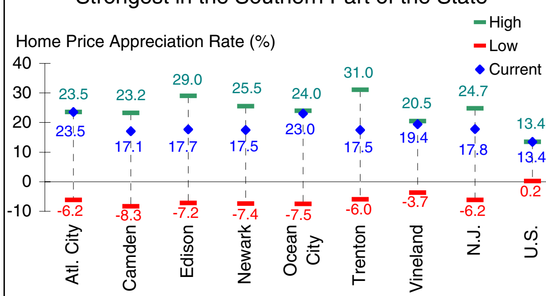
- After increasing at a steady pace over the past three quarters, New Jersey's job growth rate eased in second quarter 2005. The state's job growth path remains similar, albeit slightly below the national growth rate (see Chart 1).
- New Jersey's consumer-driven industries accounted for almost two-thirds of net new jobs added during second quarter 2005. Housing-related jobs, including construction and mortgage services, have also been important contributors and represented almost 20 percent of the new private sector jobs added last year. Contraction in the state's manufacturing and telecommunications industries continued.
- Job growth was strongest in the **Camden** and **Trenton** metropolitan areas reflective of growth in professional and business services and state government, respectively. For the fourth consecutive quarter, **Atlantic City** recorded year-over-year losses, which in large part reflected declines in construction following the completion of a series of casino expansions and other commercial projects. Persistent job losses in **Newark** since 2003 primarily reflected continued weakness in the area's professional and business services sector.
- The recent hurricanes have contributed to higher gas prices in New Jersey and may lead to higher heating bills this winter. After sharply increasing following Katrina, gasoline prices in the state have eased. However, the price per gallon in New Jersey remained higher than the nation.[1] In past years, petroleum and natural gas represented 75 percent of all residential energy consumed in the state, and per capita consumption of these energy sources has exceeded the national average.[2]

Chart 1: NJ's Job Growth Rate Trails the Nation; Job Levels Exceed Pre-Recession Peak



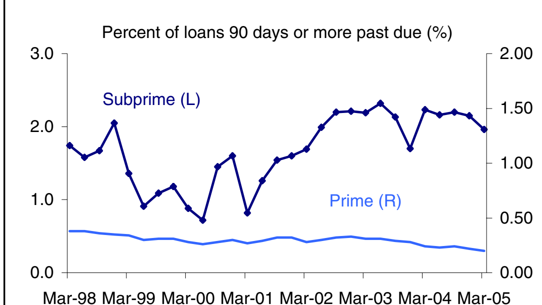
Source: Bureau of Labor Statistics

Chart 2: Home Price Appreciation Rates Were Strongest in the Southern Part of the State



Note: History of current, high and low quarterly home price appreciation rate since 1980 to second quarter 2005. Source: Office of the Federal Housing Enterprise Oversight

Chart 3: Subprime Mortgage Delinquency in New Jersey Has Stabilized



Source: Mortgage Bankers Association (Haver Analytics)

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[1] American Automobile Association.

[2] Energy Information Administration, U.S. Census Bureau. Energy consumption data available through 2001.

Home price appreciation in New Jersey ranked ninth highest in the nation.

- Housing markets across the state continued to record double-digit home price appreciation in second quarter 2005, and appreciation rates approached historical highs in the southern part of the state (see Chart 2). Employment gains, income growth, and low mortgage rates have contributed to robust housing activity in the state; however, the rate of increase of existing home sales has eased over the past year.

- Home prices have increased significantly relative to apartment rents. In Northern New Jersey, the monthly mortgage payment for the median priced home increased more than 50 percent since 2000 to $2,362, while monthly apartment rents increased only minimally to $1,162.[3]

- Despite job losses, Atlantic City's second quarter 2005 rate of home price appreciation was a record high. Demand for second homes mitigated the effect of local job losses on Atlantic City's housing market. For example, the percent of securitized mortgages used to purchase second homes in the **Atlantic-Cape May** area significantly exceeded the national average during the past four years.[4] Spillover of housing demand from higher-priced areas has helped offset the effect of job losses on the Newark housing market.

Residential loan quality remained strong in New Jersey.

- Forty percent of New Jersey's FDIC-insured institutions are residential lenders compared with 11 percent nationwide, making residential loan quality an area of prime importance.[5] Favorable employment conditions have contributed to strong residential loan quality in New Jersey.

- After increasing following the recession, past-due rates on subprime mortgages in New Jersey have eased but remained higher than pre-recession levels (see Chart 3).[6] Nonetheless, higher interest rates and seasoning of mortgage portfolios may result in some weakening. Borrowers with marginal finances may be more vulnerable to repayment stress.

- The share of securitized interest-only and option ARM (potentially negative amortization loans) originated in the state has increased but remained lower than the national average through the first half of 2005.[7] Should interest rates rise, payments on some of these mortgages could escalate. Moreover, should appreciation rates significantly ease, debt owed on some negative amortization loans could exceed the underlying home value.

The state's FDIC-insured institutions reported a slight decline in profitability.

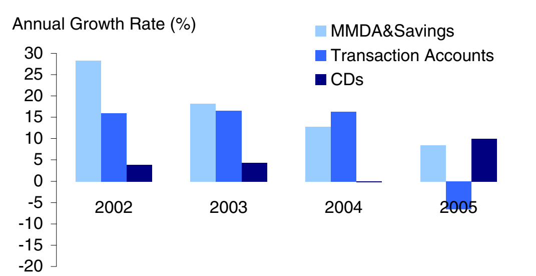
- Banking profitability, as measured by the median return-on-assets, declined slightly during second quarter 2005 compared with one year ago. The median net interest margin declined as the increase in funding costs outpaced the rise in asset yields. Funding cost increases accelerated in the second quarter, reflecting higher short-term market interest rates, aggressive competition, and a shift in mix toward certificates of deposit (CDs).

Certificates of deposit lead core deposit growth.

- After trailing for several years, CDs led deposit growth in second quarter 2005 (see Chart 4). When short-term interest rates were low, as was the case in 2002 and 2003, the incremental income benefit to depositors from locking into a CD relative to other deposit products was modest. However, as short-term interest rates rose, depositors have returned to CDs in preference to traditionally lower-yielding deposit accounts, such as transactional (checking accounts), money market, and savings accounts.

- For banks with large transactional accounts, growth in CDs may contribute to higher funding costs as depositors shift their money from low yielding accounts into CDs. Alternatively, some banks may be opting for CDs in lieu of wholesale borrowings, which are typically more sensitive to rate changes, to manage funding costs in a rising rate environment.

Chart 4: Depositors Have Returned to CDs of New Jersey Banks in the Past Year



Notes: Data are for banks with total assets less than $1 billion excluding thrift institutions. Adjusted for mergers. MMDA: Money Market and Demand Accounts. Source: FDIC

[3]Federal Home Loan Mortgage Corporation, National Association of Realtors, Property and Portfolio Research and FDIC estimates. Monthly mortgage amounts based upon 20 percent down payment on a median priced home, at the prevailing 30-year conventional mortgage rates for the second quarters 2000 and 2005. Monthly rent data are weighted averages.
[4]LoanPerformance. Second home share of securitized purchase money Alt-A (low documentation) loans.
[5]"Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in one-to-four family mortgage loans and mortgage-backed securities.
[6]Mortgage Bankers Association (Haver Analytics)
[7]Source: LoanPerformance Corporation.

New Jersey at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	1.6%	0.6%	0.6%	-0.1%
Manufacturing (8%)	-2.6%	-2.0%	-3.8%	-3.3%	-4.6%
Other (non-manufacturing) Goods-Producing (4%)	0.5%	2.9%	3.3%	3.4%	-1.3%
Private Service-Producing (72%)	1.8%	1.8%	0.8%	0.6%	0.2%
Government (16%)	1.5%	2.0%	1.5%	2.0%	1.4%
Unemployment Rate (% of labor force)	4.0	4.2	4.9	4.8	5.9

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.4%	6.1%	7.5%	5.5%	1.6%
Single-Family Home Permits	-11.3%	1.5%	13.0%	4.7%	-2.8%
Multifamily Building Permits	80.0%	8.9%	48.3%	40.8%	20.3%
Existing Home Sales	-0.6%	3.2%	11.4%	8.4%	4.9%
Home Price Index	17.8%	16.5%	13.9%	15.0%	10.5%
Bankruptcy Filings per 1000 people (quarterly annualized level)	5.27	4.72	5.14	4.75	5.08

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	136	139	142	139	146
Total Assets (in millions)	178,818	169,607	156,962	167,720	152,174
New Institutions (# < 3 years)	4	4	4	5	6
Subchapter S Institutions	4	4	4	4	4

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.64	0.73	0.69	0.88	0.85
ALLL/Total Loans (median %)	0.99	1.01	1.01	1.00	1.03
ALLL/Noncurrent Loans (median multiple)	2.81	2.40	2.88	2.39	2.58
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.00

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.75	9.56	9.49	9.49	8.89
Return on Assets (median %)	0.83	0.82	0.84	0.82	0.79
Pretax Return on Assets (median %)	1.27	1.16	1.21	1.23	1.15
Net Interest Margin (median %)	3.44	3.49	3.51	3.54	3.55
Yield on Earning Assets (median %)	5.28	5.12	4.95	5.03	5.19
Cost of Funding Earning Assets (median %)	1.84	1.66	1.44	1.52	1.63
Provisions to Avg. Assets (median %)	0.05	0.05	0.06	0.06	0.07
Noninterest Income to Avg. Assets (median %)	0.32	0.29	0.31	0.31	0.39
Overhead to Avg. Assets (median %)	2.45	2.59	2.59	2.58	2.63

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	59.4	60.1	59.1	60.0	57.5
Noncore Funding to Assets (median %)	17.3	17.0	16.4	16.4	16.1
Long-term Assets to Assets (median %, call filers)	23.9	25.8	27.3	25.7	29.0
Brokered Deposits (number of institutions)	28	28	22	28	21
Brokered Deposits to Assets (median % for those above)	3.6	2.8	3.0	2.7	2.7

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	20.7	24.4	24.0	29.9	31.3
Commercial Real Estate	215.5	209.8	171.6	185.9	175.2
Construction & Development	25.3	22.1	16.1	19.2	14.5
Multifamily Residential Real Estate	6.3	6.9	7.2	6.9	6.7
Nonresidential Real Estate	133.4	139.6	127.4	137.4	130.6
Residential Real Estate	250.8	247.3	244.0	241.7	250.1
Consumer	3.2	3.4	3.9	3.7	4.7
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
New York-Northern New Jersey-Long Island, NY-NJ-PA	236	713,546	< $250 million	58 (42.6%)
Trenton-Ewing, NJ	25	8,847	$250 million to $1 billion	49 (36%)
Atlantic City, NJ	17	3,656	$1 billion to $10 billion	24 (17.6%)
Ocean City, NJ	13	2,361	> $10 billion	5 (3.7%)
Vineland-Millville-Bridgeton, NJ	10	1,745		